



Local Agency Formation Commission
LAFCO of Napa County

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February 1, 2010
Agenda Item No. 7b (Action)

January 25, 2010

TO: Local Agency Formation Commission

FROM: Budget Committee (Chilton, Kelly, and Simonds)

SUBJECT: Draft Proposed Budget for Fiscal Year 2010-2011

The Commission will review a draft proposed budget from the Budget Committee for 2010-2011 projecting overall operating expenses at \$413,480. The projected amount represents a 16.8% decrease over the current fiscal year. The Committee also proposes substantive changes to the budget process, including the elimination of apportioning annual reserves and contingencies in favor of establishing a policy to maintain three months of operating reserves in the fund balance. The draft proposed budget is being presented to the Commission for approval.

The Local Agency Formation Commission of Napa County (“Commission”) is responsible for annually adopting a proposed budget by May 1st and a final budget by June 15th. In preparing for its own provisions, the Commission has established a Budget Committee (“Committee”) consisting of two appointed Commissioners and the Executive Officer. The Committee’s initial responsibility is to prepare and present a draft proposed budget for approval by the Commission before it is circulated for comment to each funding agency. It has been the practice of the Commission to receive proposed and final budgets from the Committee for adoption at its April and June meetings, respectively.

A. Background

The Commission’s annual operating expenses are funded by the County of Napa and the Cities of American Canyon, Calistoga, Napa, St. Helena, and Yountville. State law specifies the County is responsible for one half of the Commission’s operating expenses while the remaining amount is apportioned among the five cities based on a weighted calculation of population and general tax revenues. It has been the practice of the Commission to only budget operating expenses given its prescribed funding sources. It is also the practice of the Commission to return all of its unspent revenues (contributions, application fees, etc.) to the funding agencies in the form of credits towards their calculated shares of the subsequent fiscal year budget. The Commission’s adopted operating expenses along with agency credits and apportionments over the last five fiscal years follow.

Juliana Inman, Chair
Councilmember, City of Napa

Lewis Chilton, Commissioner
Councilmember, Town of Yountville

Joan Bennett, Alternate Commissioner
Councilmember, City of American Canyon

Bill Dodd, Vice Chair
County of Napa Supervisor, 4th District

Brad Wagenknecht, Commissioner
County of Napa Supervisor, 1st District

Mark Luce, Alternate Commissioner
County of Napa Supervisor, 2nd District

Brian J. Kelly, Commissioner
Representative of the General Public

Gregory Rodeno, Alternate Commissioner
Representative of the General Public

Keene Simonds
Executive Officer

	FY05-06	FY06-07	FY07-08	FY08-09	FY09-10
Adopted Expenses	<u>\$436,915</u>	<u>\$456,758</u>	<u>\$466,672</u>	<u>\$552,168</u>	<u>\$496,961</u>
Agency Credits					
County of Napa.....	44,343	72,658	91,669	99,701	94,515
City of Napa.....	30,827	49,793	62,807	65,691	63,508
City of American Canyon...	4,974	9,126	11,909	15,558	14,631
City of St. Helena.....	3,597	5,813	7,188	7,687	6,786
City of Calistoga.....	2,967	4,737	5,612	6,034	5,391
Town of Yountville.....	1,977	3,190	4,154	4,732	4,199
	<u>88,686</u>	<u>145,317</u>	<u>183,338</u>	<u>199,402</u>	<u>189,030</u>
Agency Contributions					
County of Napa.....	174,114	155,720	141,667	176,383	153,966
City of Napa.....	118,873	106,679	90,934	119,820	105,429
City of American Canyon...	22,477	20,542	24,502	27,180	22,011
City of St. Helena.....	13,849	12,095	10,801	12,134	11,135
City of Calistoga.....	11,324	9,243	8,509	9,714	8,743
Town of Yountville.....	7,592	7,160	6,920	7,534	6,648
	<u>348,229</u>	<u>311,411</u>	<u>283,333</u>	<u>352,765</u>	<u>307,931</u>
	<u>\$436,915</u>	<u>\$456,758</u>	<u>\$466,672</u>	<u>\$552,168</u>	<u>\$496,961</u>

B. Discussion

The Committee met on January 13, 2010 to review the Commission's operating expenses for the upcoming fiscal year. The Committee created a spending baseline to identify agency costs to maintain the current level of services at next fiscal year's price for labor and supplies. In reviewing the spending baseline, the Committee considered actual expenses from previous fiscal years and whether adjustments in spending are appropriate to reflect anticipated changes in demand or need. The Committee also focused on whether changes to the overall budget process are warranted to improve the financial management of the agency. Proposed changes identified by the Committee are outlined below:

- Begin budgeting revenues.
- Maintain the fund balance to be equal to three months of operating expenses at the beginning of each fiscal year.
- No longer budget an annual operating reserve or consultant contingency in favor of relying on the agency's fund balance to cover unexpected expenses.

Expenses

Overall operating expenses in 2010-2011 are projected at \$413,480. This projected amount represents a decrease of \$83,481 or 16.8% over the current fiscal year. Nearly all of the decrease is attributed to the Committee's recommendation to eliminate the annual reserve and consultant contingency. Also attributing to the decrease is a sizeable reduction in the annual service charge by the County for providing information technology services (ITS) based on their own calculation in apportioning user costs.

Notwithstanding the overall decrease, the Committee has allocated additional funding within several expense accounts. Expenses in the salaries and benefits unit are expected to increase by 2.0% with the majority tied to accommodating recent and pending merit advances for staff consistent with the County's job classification system. Expenses in the services and supplies unit are also expected to increase primarily due to establishing a new account to provide capital replacement funding for the agency's recently purchased electronic document management system. However, the aforementioned savings in the ITS charge helps to reduce the overall increase in the services and supplies unit to 1.2%.

Expense Unit	Adopted FY09-10	Proposed Draft FY10-11	Change
Salaries/Benefits	<u>288,265</u>	<u>293,973</u>	<u>2.0</u>
Services/Supplies	<u>118,063</u>	<u>119,506</u>	<u>1.2</u>
Contingencies/Reserves	<u>90,633</u>	<u>0</u>	
	<u>\$496,961</u>	<u>\$413,480</u>	<u>(16.8%)</u>

Revenues

Agency contributions are expected to cover nearly nine-tenths of the Commission's projected operating expenses in 2010-2011. This amount represents a 20.5% increase over agency contributions collected for the current fiscal year. The expected increase in agency contributions corresponds with the anticipated decrease in unspent revenues available at the end of this fiscal year to be converted into agency credits. Notably, credits for the current fiscal year totaled \$189,030 while credits for the upcoming fiscal year are expected to total \$27,282. The cause of the expected decrease in credits is two-fold. First, actual salary and benefit costs increased due to the filling of the analyst position after nearly a two-year vacancy. Second, in conjunction with the recommendation to eliminate annual reserve and contingency appropriations, the Committee proposes to hold back \$99,620 in unspent revenues from the credit pool to set the fund balance equal to three months of operating expenses. The remaining revenues are expected to be drawn from outstanding agency credits, application fees, and interest.

Revenue Type	FY09-10	Proposed Draft FY10-11	Change
Agency Contributions			
County of Napa.....	153,966	185,599	20.5
City of Napa.....	105,429	126,185	19.7
City of American Canyon...	22,011	27,369	24.3
City of St. Helena.....	11,135	13,386	20.2
City of Calistoga.....	8,743	10,557	20.8
Town of Yountville.....	6,648	8,102	21.9
	<u>307,931</u>	<u>371,198</u>	<u>20.5</u>
Agency Credits	<u>189,030</u>	<u>27,282</u>	<u>(85.6)</u>
Application Fees	---	<u>10,000</u>	---
Interest	---	<u>5,000</u>	---
	<u>\$496,961</u>	<u>\$413,480</u>	<u>(16.8%)</u>

C. Analysis

The draft proposed budget for 2010-2011 accomplishes the Committee's core objectives to (a) provide sufficient resources to maintain current service levels while (b) minimizing impacts on the funding agencies by limiting increases in discretionary expenses. The former accomplishment allows the Commission to preserve present staffing levels, which the Committee believes is merited given the agency's increasing workload. In particular, along with processing applicant proposals and preparing municipal service reviews and sphere of influence updates, staff has assumed additional duties ranging from implementing an electronic document management system to expanding roles within the statewide association. Any reduction in staffing levels would create a corresponding decrease in fulfilling current duties. Further, while the funding agencies will experience an overall 20% rise in their contributions, the increase marks a natural readjustment given the higher-than-average credit totals received for the current fiscal year due to vacancy of the analyst position for most of 2008-2009.

Additionally, the Committee's proposed changes to the budget process will improve the financial management of the Commission. For example, budgeting revenues will provide a transparent connection between operating expenses and funding sources at the time of budget adoption rather than continuing to invoice the funding agencies their calculated contributions in August without public discussion. Eliminating annual appropriations for operating reserves and consultant contingencies in favor of establishing a fund balance policy to maintain three months of operating expenses to cover unexpected events benefits both the Commission and funding agencies. The Commission will benefit from the change by clarifying its financial position at the end of each fiscal year by reducing the amount of cash tied to agency credits remaining in the fund balance. The funding agencies will benefit from the change by enjoying more cost-certainty by receiving a more accurate appropriation charge at the beginning of each fiscal year.

D. Recommendation

It is recommended for the Commission to take the following actions:

- 1) Approve with any desired changes the draft proposed budget for 2010-2011;
- 2) Direct the Executive Officer to circulate the approved draft proposed budget for review and comment to each funding agency; and
- 3) Direct the Executive Officer to schedule a public hearing for the Commission to consider adopting a proposed budget at its April 5, 2010 meeting.

Respectfully submitted on behalf of the Committee,

Keene Simonds
Executive Officer

Attachments:

- 1) Draft Proposed Budget for FY10-11